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MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

BAC2684 – FINANCIAL STATEMENT ANALYSIS

(All sections / Groups)

31 May 2018
9.00a.m – 12.00p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 5 pages with 4 Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

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QUESTION 1

Strategic planning is concerned with the task of choosing directions and areas of concentration for an organisation and the strategic planning process is affected by the nature of the environment.

Required:

(a) Identify five competitive forces in the environment of a firm and discuss the threat posed to the firm by each of these forces.

(15 marks)

(b) Identify the nature and effect of significant 'entry barriers' for a business which is already established in the industry.

(10 marks)

Total: 25 marks

QUESTION 2

Summary information from the financial statements of two companies competing in the same industry as follows:

Statement of Financial Position as at 31 December 2018

	Bimbi Company RM	**Bonni Company RM**
Assets		
Cash	18,500	33,000
Accounts receivable (net)	38,400	58,400
Notes receivable	10,100	8,200
Inventories	83,440	131,500
Prepaid expenses	5,000	6,950
Property, Plant and Equipment (net)	290,000	304,400
Total assets	445,440	542,450
Liabilities and Equity		
Current liabilities	61,340	91,300
Long-term notes payable	80,800	103,000
Common stock, RM5 par	190,000	216,000
Retained earnings	113,300	132,150
Total liabilities and equity	445,440	542,450

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Statement of Profit & Loss for the year ended 31 December 2018

	Bimbi Company RM	Bonni Company RM
Sales	780,000	890,200
Cost of goods sold	575,100	622,500
Interest expense	7,800	13,300
Income tax expense	14,900	24,000
Net income	182,200	230,400
Basic earnings per share	RM4.51	RM5.11

Beginning-of-year balance

	Bimbi Company RM	Bonni Company RM
Accounts receivable (net)	30,800	55,200
Notes receivable	0	0
Inventory	54,600	106,400
Total assets	398,000	382,500
Common stock, RM5 par value	190,000	216,000
Retained earnings	88,300	83,600

Required:

(a) Assuming that each company paid cash dividends of RM3.80 per share and each company's stock can be purchased at RM75 per share. For both companies, compute the following ratios:

1. Current ratio
2. Acid-test ratio
3. Accounts receivable turnover
4. Inventory turnover
5. Days' sales in inventory
6. Profit margin
7. Total asset turnover
8. Return on total assets
9. Return on common stockholders' equity
10. Price-earnings ratio
11. Dividend yields

(15 marks)

(b) Identify the company you consider to be better in term of short-term credit risk and explain why.

(5 marks)

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(c) Identify which company's stock you would recommend as the better investment and explain why.

(5 marks)

Total: 25 marks

QUESTION 3

Daizo Bhd
Statement of Comprehensive Income for the year ended 31 December 2018

	RM	RM
Sales		582,500
Cost of goods sold		285,000
Gross profit		297,500
Operating expenses:		
Depreciation expenses	20,750	
Other expenses	132,400	153,150
Other gain (losses):		
Loss on sale of furniture and fittings	5,125	
Loss on retirement of bonds	825	5,950
Income before income taxes		138,400
Income taxes expense		24,250
Net Income		114,150

Daizo Bhd
Comparative Statement of Financial Position as at 31 December…

	2018	2017
Assets	**RM**	**RM**
Cash	49,800	86,000
Accounts receivable	65,810	50,625
Inventory	275,656	264,300
Prepaid expenses	1,250	1,875
Furniture and fittings	157,500	108,000
Accumulated depreciation – furniture and fittings	(36,625)	(46,000)
Total assets	513,391	464,800
Liabilities and Equity		
Accounts payable	53,141	114,675
Short-term notes payable	10,000	6,000
Long-term notes payable	65,000	48,750
Bonds payable	0	20,500
Dividends payable	0	4,500
Common stock, RM5 par value	162,750	150,250
Paid-in capital in excess of par, common stock	37,500	0
Retained earnings	185,000	120,125
Total Liabilities and Equity	513,391	464,800

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During 2018, the company engaged in these transactions:

a) Sold furniture and fittings costing RM46,875 with accumulated depreciation of RM30,125 for RM11,625 cash.
b) Purchased furniture and fittings costing RM96,375 by paying RM30,000 cash and signing a long-term note payable for the balance.
c) Borrowed RM4,000 cash by signing a short-term note payable.
d) Paid RM50,125 cash to reduce the long-term notes payable.
e) Issued 2,500 shares of common stock for RM20 cash per share.
f) The balance of Retained Earnings is affected by dividend declarations and net income

Required:

(a) Prepare a statement of cash flows using the indirect method for year 2018. Disclose any noncash investing and financing activities in a note.

(17 marks)

(b) Analyze and discuss the statement of cash flows prepared in part 1, giving special attention to the wisdom of the cash dividend payment.

(8 marks)

Total: 25 marks

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QUESTION 4

(a) In order to ensure companies are achieving their goal in maximizing shareholders' value, investors frequently assess the company performance through various methods. Kindly describe THREE measurement of return on investment.

(9 marks)

(b) Managers implement various ways to manage the reported earnings due to the desire for bonus and promotion. Give TWO strategies which managers can manage the reported earnings.

(4 marks)

(c) There was an explosion in a factory. The carrying amounts of its assets were as follows:

	RM'000
Goodwill	100
Patents	200
Machines	300
Computers	500
Buildings	1,500
	2,600

The factory operates as a cash generating unit. An impairment review reveals a net selling price of RM1.2 million for the factory and value in use of RM1.95 million. Half of the machines have been blown to prices but the other half can be sold for at least their book value. The patents have been superseded and are now considered worthless.

Required: Show the effect of explosion on the asset values.

(12 marks)

Total: 25 marks

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